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State of Montana
Office of the Legislative Auditor

REPORT TO THE LEGISLATURE

MONTANA ARTS COUNCIL

Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1987

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This report contains nine recommendations for improvement of the council's operations. Four of these recommendations were included in the prior audit of the council and are again included in the current report. The major items addressed in this report include:

- Compliance with appropriation laws
- Compliance with accounting policies regarding expenditure recognition
- Compliance with state law regarding payroll

Direct comments/inquiries to:
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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office.

Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

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LEGAL COUNSEL:
JOHN W. NORTHEY

March 1988

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Arts Council for fiscal years 1985-86 and 1986-87. Included in this report are recommendations concerning compliance with appropriation laws; compliance with accounting policies regarding expenditure recognition; and compliance with state law regarding payroll. The council's written response to audit recommendations is included in the back of the audit report.

We thank the executive director and the council's staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

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Office of the Legislative Auditor

MONTANA ARTS COUNCIL

Financial-Compliance Audit for the
Two Fiscal Years ended June 30, 1987

Audit staff involved in the Montana Arts Council audit included: Julie Barr, Paul Christofferson, Renee Foster, Lorry Parriman, and Janet Tursich.

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MONTANA ARTS COUNCIL

APPOINTED AND ADMINISTRATIVE OFFICIALS

Montana Arts Council Members

		Term Expires
Sue Talbot (Chairperson)	Missoula	1988
Kitty Belle Deernose	Crow Agency	1990
Shirley L. Hanson	Havre	1988
Sonia Hoffman	Helena	1988
James D. Kriley	Missoula	1988
Jack Nickels, Jr.	Fort Peck	1990
Randall S. Ogle	Kalispell	1992
Larry Pirnie	Missoula	1988
Janice Snow	Missoula	1990
Jessica Stickney	Miles City	1992
Charles F. Tooley	Billings	1992
Carolyn Valacich	Great Falls	1990
Larry Williams	Bozeman	1990
James Whitlock	Hamilton	1990
Patrick Zentz	Laurel	1992

Administrative Official

David E. Nelson — Executive Director

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply.

Page

RECOMMENDATION # 1
The Council:

A. Comply with state law and not contract with former employees within six months of termination. 4

Agency Response: Concur. See page 19.

B. Obtain a waiver from the federal grantor agency or make cost adjustments of $3,850 to the National Endowment for the Arts. 4

Agency Response: Concur. See page 19.

RECOMMENDATION # 2
The Council:

A. Record expenditures in the proper fiscal year. 5

Agency Response: Do not concur. See page 19.

B. Monitor its budget to avoid overspending appropriations. 5

Agency Response: Do not concur. See page 19.

RECOMMENDATION # 3
The Council pay classified employees in accordance with state law. 5

Agency Response: Concur. See page 20.

RECOMMENDATION # 4
The Council:

A. Make deposits in accordance with state law. 6

Agency Response: Concur. See page 20.

B. Establish procedures to improve internal controls over cash collections. 6

Agency Response: Concur. See page 20.

SUMMARY OF RECOMMENDATIONS
(continued)

RECOMMENDATION # 5
The Council negotiate an agreement with the federal government to recover indirect costs incurred in administering federal grants as required by state law. 7

Agency Response: Concur. See page 20.

RECOMMENDATION # 6
The Council comply with state policy regarding expenditure recognition and accrue only when valid obligations exist. 8

Agency Response: Concur. See page 21.

RECOMMENDATION # 7
The Council comply with state policy by adequately supporting all SBAS documents. 9

Agency Response: Concur. See page 21.

RECOMMENDATION # 8
The Council establish procedures to restrict the use of federal cash to the applicable federal program. 10

Agency Response: Concur. See page 21.

RECOMMENDATION # 9
The Council develop a system to ensure subgrantees do not spend federal funds for political activity. 10

Agency Response: Concur. See page 21.

INTRODUCTION

We performed a financial-compliance audit of the Montana Arts Council (council) for each of the two fiscal years ended June 30, 1986 and 1987. The objectives of the audit were to:

1) determine the council's compliance with applicable laws and regulations;

2) make recommendations for improvement in the council's management and internal controls;

3) determine if the council's financial schedules present fairly the results of its operations for each of the two fiscal years ended June 30, 1986 and 1987; and

4) determine implementation status of prior audit recommendations.

The report contains nine recommendations to the council. These recommendations address areas where the council can improve financial reporting and compliance with laws and regulations. Other areas of concern deemed not to have a significant effect on the successful operations of the council are not included in this report but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendation.

BACKGROUND

The Montana Arts Council was established as a state agency in 1967. The council consists of fifteen members who are appointed by the governor and, with the consent of the Senate, serve a five-year term. The council members are responsible for the governance, management, and control of the agency. Council members do not receive any compensation for their services but do receive reimbursement of travel expenses. The council's duties are to:

1. encourage the study and presentation of the arts throughout the state;

2. stimulate public interest and participation in the arts;

3. cooperate with public and private institutions engaged in cultural and aesthetic activities;

4. foster public interest in the cultural heritage of Montana and expand the state's cultural resources; and

5. encourage and assist freedom of artistic expression.

The council has two primary sources of funding: federal grants and investment earnings from the Coal Tax Parks Acquisition Trust Fund. The council receives one-third of the investment earnings from the Coal Tax Parks Acquisition Trust Fund for the Cultural and Aesthetic Program. The legislature determines which organizations will receive the coal tax money and the council grants the money as specified. The council received a biennial appropriation of $1,189,211 for grants; $59,000 for the Folklife Project; $10,000 for grant evaluations; and $33,300 to administer the Cultural and Aesthetic Program.

SUMMARY OF PRIOR AUDIT RECOMMENDATIONS

The audit of the Montana Arts Council for the two fiscal years ended June 30, 1985, was performed by our office. That audit report contained sixteen separate recommendations.

We reviewed the status of the prior audit recommendations and determined that of the 15 recommendations still applicable to the council's operations, eight were implemented; three were partially implemented; and four were not implemented.

The council concurred with the four prior audit recommendations which were not implemented. These recommendations concerned:

1) Indirect Cost Recovery- recover indirect costs from federal monies;
2) Cash Collections- make deposits in accordance with state law;
3) Expenditure Recognition- accrue only valid obligations; and
4) Documentation- adequately support SBAS documents.

These recommendations are again addressed in various sections of this report.

STATE COMPLIANCE

We reviewed selected state laws and regulations pertaining to the council. The following sections discuss state compliance issues we noted during our audit.

Contracted Employee

Section 2-2-201, MCA, prohibits former state employees, within 6 months following the termination of their employment, from contracting or being employed by an employer who contracts with the state or any of its subdivisions involving matters with which they were directly involved during their employment. The council changed the status of a part-time state employee to an employee of the foundation who contracted with the council in August 1986. The individual did not have a six month break-in-service between the time she was a state employee and a contract employee. Council personnel indicated that major duties performed by the individual did not change when the employee's status changed.

Council personnel were unaware of the state law which prohibits contracting with foundation employees who were former employees of the council. The council paid a total of $7,700 for the contract payments. Of the total, $3,850 was paid with federal funds received from the National Endowment for the Arts, Basic State Grant (CFDA #45.007). According to federal regulations, costs charged to a federal grant must be allowable under state law. Since the council did not comply with state law, we question $3,850 paid with federal funds.

Council personnel indicated the change was made because the employee retired and was receiving a Public Employees' Retirement System allowance. Section 19-3-1106, MCA, states that a retiree's retirement allowance is reduced if the retiree earns in excess of $5,000 or exceeds 60 working days under covered employment in any calendar year. The council made the switch to avoid the employee exceeding 60 working days under covered employment. In addition, the council switched the employee because the state position was a full-time position but the employee was only working part-time. This allowed the council to move a full-time person into this position. As of July 1987, all the council's contract employees were changed to state employees.

RECOMMENDATION #1

WE RECOMMEND THE MONTANA ARTS COUNCIL:

A. COMPLY WITH STATE LAW AND NOT CONTRACT WITH FORMER EMPLOYEES WITHIN SIX MONTHS OF TERMINATION.

B. OBTAIN A WAIVER FROM THE FEDERAL GRANTOR AGENCY OR MAKE COST ADJUSTMENTS OF $3,850 TO THE NATIONAL ENDOWMENT FOR THE ARTS.

Overspent Appropriation

State accounting policy defines when the council should record an expenditure for lump-sum termination pay. The policy requires the council to record lump-sum vacation and sick leave pay as an expenditure in the fiscal year in which the employee terminates.

In fiscal year 1983-84, the council accrued $8,713 for termination pay for an employee who did not terminate until fiscal year 1985-86. We recommended, in the prior audit, the council reverse this accrual transaction for fiscal year 1983-84 because it was not in accordance with state policy. The council did not reverse the accrual at this time; therefore, termination pay expenditures remained recorded in fiscal year 1983-84.

When the employee actually terminated, the council charged the termination pay to fiscal year 1985-86 expenditures. Subsequently, the council reversed the fiscal year 1983-84 accrual against fiscal year 1985-86 expenditures. As a result, no expenditures were charged in fiscal year 1985-86. When the council reversed the accrual, it improperly reduced fiscal year 1985-86 expenditures. This resulted in unauthorized increases in the council's fiscal year 1985-86 appropriation authority. As a result, the council overspent its appropriations by $4,356 in each of its General and Federal Special Revenue Funds in fiscal year 1985-86.

The council did not concur with the prior audit recommendation because they believed reversing the fiscal year 1983-84 accrual and "absorbing the cost out of current appropriations would have a devastating effect on the agency." Council personnel believed the expenditure should be charged against an

appropriation received in fiscal year 1983-84 for moving expenses because of relocation of its offices from Missoula to Helena. However, it would not be proper to charge the termination pay to the moving appropriation because it did not comply with the legislative intent of the appropriation.

RECOMMENDATION #2

WE RECOMMEND THE MONTANA ARTS COUNCIL:

A. RECORD EXPENDITURES IN THE PROPER FISCAL YEAR.

B. MONITOR ITS BUDGET TO AVOID OVERSPENDING APPROPRIATIONS.

Payroll

The council employed a state employee who was paid under the state classification system. To supplement this employee's state salary, the council contracted with the foundation to pay the employee an additional fifty cents per hour more than the state pay matrix allowed for the employee's classified grade. The foundation initially paid the additional salary to the employee and the council later reimbursed the foundation with monies from its contracted services budget. The council incurred total expenditures of $2,100 for the additional salary.

Section 2-18-207, MCA, states an agency may not increase the salary or wage of any class of positions without authorization from the Department of Administration (D of A). Council personnel said they believed the state classification for the employee was too low but they did not submit the necessary paperwork to the D of A for an approved upgrade until fiscal year 1986-87. The council received the approval from the D of A for the upgrade in August 1986. By paying the additional salary through the foundation, the council did not follow state law.

RECOMMENDATION #3

WE RECOMMEND THE MONTANA ARTS COUNCIL PAY CLASSIFIED EMPLOYEES IN ACCORDANCE WITH STATE LAW.

Cash Collections

State law requires agencies to deposit receipts when coin and currency exceed $100 or total collections exceed $500. Weekly deposits are required regardless of the amount being held for deposit. Three out of seven collection reports tested accumulated to an amount greater than $5,000 before a deposit was made. One $202 check was received on July 19, 1985 and was not deposited until September 19, 1985. In another instance, a $250 check was received on February 8, 1987 but not deposited until March 13, 1987. If deposits are not made on a frequent basis, the potential for money to be lost or stolen increases. In addition, the state's General Fund loses interest that could have been earned on this money.

We recommended the council make deposits in accordance with state law during our previous audit. The council concurred with the recommendation but did not implement it. Council personnel said they had a change in personnel and the new employee was not made aware of this state law.

The council maintains a "Daily Record of Collections," but updates it only sporadically when deposits are made. In order to have an effective internal control, the person responsible for opening the mail should make an entry in the log as each check is received. A notation on the log should be made when deposits are prepared. This would ensure all checks and monies received are deposited.

RECOMMENDATION #4

WE RECOMMEND THE MONTANA ARTS COUNCIL:

A. MAKE DEPOSITS IN ACCORDANCE WITH STATE LAW.

B. ESTABLISH PROCEDURES TO IMPROVE INTERNAL CONTROLS OVER CASH COLLECTIONS.

Indirect Cost Recovery

The council did not comply with section 17-3-111, MCA, which requires state agencies to recover indirect costs of federal assistance programs to the fullest extent possible. In order to comply with the state law, the council should have negotiated an agreement with the federal government to recover indirect costs incurred in administering federal grants received from the

National Endowment for the Arts (CFDA #'s 45.003, 45.007, and 45.015). We recommended that an indirect cost recovery agreement be negotiated with the federal government during our previous two audits. The council concurred with the recommendation in both audits but did not implement it.

The Department of Administration's Statewide Cost Allocation Plan (SWCAP) for fiscal years 1985-86 and 1986-87 allocated $5,778 and $7,449, respectively, to the council. If the council had an agreement for indirect cost recovery with the federal government, a negotiated amount, up to the SWCAP amounts noted above, could have been recovered and reimbursed to the state's General Fund. Council personnel stated if they negotiated for indirect costs with the federal government, it would decrease money available for programs. However, the council is misrepresenting the General Fund support for federal programs.

RECOMMENDATION #5

WE RECOMMEND THE MONTANA ARTS COUNCIL NEGOTIATE AN AGREEMENT WITH THE FEDERAL GOVERNMENT TO RECOVER INDIRECT COSTS INCURRED IN ADMINISTERING FEDERAL GRANTS AS REQUIRED BY STATE LAW.

ACCOUNTING ISSUES

The Montana Operations Manual and management memos issued by the Department of Administration, Accounting Division, provide agencies with guidelines and certain requirements for recording activity on the Statewide Budgeting and Accounting System (SBAS). Individual agency deviations or omissions can result in management or accounting which is not in compliance with state policy. During our audit of the council, we noted the following concerns regarding the council's compliance with these policies and guidelines.

Expenditure Recognition

The council did not recognize expenditures in compliance with state accounting policy. This policy requires that a valid obligation must exist before the council can recognize an expenditure. In order for a valid

obligation to exist, the council must have either received the goods/service or had an outstanding purchase order/contract.

During our testing, we determined four out of nine expenditure accruals were not valid obligations. The council had not incurred the expenditure, nor did they have signed contracts or agreements. By improperly accruing these expenditures, the council overstated expenditures by $4,150 and $9,137 in fiscal years 1985-86 and 1986-87, respectively.

Council personnel believed these were valid obligations because they related to projects approved in the fiscal year the expenditure was accrued. This issue was also noted in our prior audit. The council concurred with the recommendation, but did not implement it.

RECOMMENDATION #6

WE RECOMMEND THE MONTANA ARTS COUNCIL COMPLY WITH STATE POLICY REGARDING EXPENDITURE RECOGNITION AND ACCRUE ONLY WHEN VALID OBLIGATIONS EXIST.

Documentation

The council did not comply with state policy requiring SBAS documents in the agency's file be properly and adequately supported. Federal regulations also require documents be adequately supported. During our testing, we determined 5 out of 11 journal vouchers and 7 out of 8 accrual documents did not have supporting documentation. Included in these were documents funded by the Basic State Grant (CFDA #45.007) and the Artists In the Schools Program (CFDA #45.003). In order to adequately explain accounting transactions, the council's accountant had to recreate supporting documentation. This took a substantial amount of time. Council personnel indicated the support was not attached due to human error.

If the accountant should terminate employment at the council, new personnel would not be able to adequately explain accounting transactions because documents do not have support attached.

This was a prior audit recommendation the council concurred with but did not implement.

RECOMMENDATION #7

WE RECOMMEND THE MONTANA ARTS COUNCIL COMPLY WITH STATE POLICY BY ADEQUATELY SUPPORTING ALL SBAS DOCUMENTS.

FEDERAL COMPLIANCE

The council receives funding from the National Endowment for the Arts (NEA) in the form of the Basic State Grant (BSG) (CFDA #45.007), the Artists in the Schools Program (AIS) (CFDA #45.003) and the Folklife Project (CFDA #45.015). Funds from BSG and AIS programs are subgranted to nonprofit organizations and artists, and are used to pay a portion of the council's operating costs. Both grants require the grantee or subgrantee to match federal funds at least dollar-for-dollar. The funds for the Folklife Project are used for council operating costs. The contracted employee and overspent appropriation sections and the following sections discuss federal compliance issues we noted during our audit.

Cash Management

In fiscal year 1985-86 and 1986-87, the council used federal funds from the Basic State Grant (CFDA #45.007) to temporarily fund a state program. During fiscal year 1985-86, the council used $899 for the entire year and in fiscal year 1986-87, the council used $6,053 for approximately ten months. The council subsequently reimbursed the federal funds with state monies.

Office of Management and Budget (OMB) "Circular A-102, Attachment G" prescribes standards for financial management systems of federal grant supported activities. These standards require the grantee's financial management system to provide for procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and the disbursement by the grantee.

The council personnel said the appropriation authority was not available at the time they needed it, so they used federal monies until the state appropriation became available. The council's failure to comply with federal standards could jeopardize the continued existence of the federal program in Montana.

RECOMMENDATION #8

WE RECOMMEND THE MONTANA ARTS COUNCIL ESTABLISH PROCEDURES TO RESTRICT THE USE OF FEDERAL CASH TO THE APPLICABLE FEDERAL PROGRAM.

Political Activity

The council subgrants with approximately 148 organizations and individuals to carry out federal projects of the Basic State Grant (CFDA #45.007). Federal regulations prohibit the use of federal monies for partisan political activity. The council does not ensure, or include in its contracts or applications with subgrantees, a requirement that federal funds not be used for this activity. Council personnel indicated this was an oversight. Since our office is not responsible for auditing most subgrantee's records, we do not know if any of these funds were spent for political activity. The council could include language that prohibits use of federal funds for political activity in its contract with subgrantees.

RECOMMENDATION #9

WE RECOMMEND THE MONTANA ARTS COUNCIL DEVELOP A SYSTEM TO ENSURE SUBGRANTEES DO NOT SPEND FEDERAL FUNDS FOR POLITICAL ACTIVITY.

AUDITOR'S OPINION LETTER
AND AGENCY FINANCIAL SCHEDULES

SUMMARY OF AUDIT OPINION

The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance which can be placed on the amounts presented.

We issued an unqualified opinion on the Schedule of Changes on Fund Balances; the Schedule of Budgeted Revenue - Estimate and Actual and the Schedules of Budgeted Program Expenditures by Object and Fund. This means the user may place reliance on the information from the Statewide Budgeting and Accounting System (SBAS).

STATE OF MONTANA

Office of the Legislative Auditor

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SCOTT A. SEACAT
LEGISLATIVE AUDITOR

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JIM PELLEGRINI
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LEGAL COUNSEL:
JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial schedules of the Montana Arts Council for each of the two fiscal years ended June 30, 1986 and 1987, as shown on pages 12 through 18. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 1 to the financial schedules, the council's financial schedules are prepared in accordance with state accounting policy. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial schedules referred to in paragraph one present fairly the results of operations and changes in fund balances of the Montana Arts Council for the fiscal years ending June 30, 1986 and 1987, in conformity with the basis of accounting described in Note 1, which has been applied on a consistent basis.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

December 4, 1987

MONTANA ARTS COUNCIL
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1987

	General Fund	Special Revenue Fund
FUND BALANCE: July 1, 1985	$ -0-	$ (23,610)
ADDITIONS		
Fiscal Year 1985-86		
Budgeted Revenue		417,250
Cash Transfer In		100,189[3]
Prior Year Revenue Adjustments		8,906
Support From State Of Montana	118,707	
Direct Entries To Fund Balance		16,867
Fiscal Year 1986-87		
Budgeted Revenue		455,731
Cash Transfer In		840,931[3]
Prior Year Revenue Adjustments		(125)
Support From State Of Montana	107,839	
Direct Entries To Fund Balance		(150,000)[1]
Total Additions	226,546	1,689,749
REDUCTIONS		
Fiscal Year 1985-86		
Budgeted Expenditures	118,707	948,266
Prior Year Expenditures		(1,190)
Prior Year Expenditure Adjustments		1,800
Fiscal Year 1986-87		
Budgeted Expenditures	107,924	1,132,491
Prior Year Expenditure Adjustments	(85)	(125)
Total Reductions	226,546	2,081,242
FUND BALANCE: June 30, 1987	$ -0-	$ (415,103)[2]

[1]This represents a transfer of $150,000 from the Montana Arts Council to the Historical Society to purchase a Charles M. Russell collection.

[2]For detail see footnote 5.

[3]For detail see footnote 7.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 16 through 18.

MONTANA ARTS COUNCIL
SCHEDULE OF BUDGETED REVENUE - ESTIMATE & ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1987

	Investment Earnings	Grants, Contracts, Donations	Federal Assistance	Total
Fiscal Year 1986-87				
SPECIAL REVENUE FUND				
Estimated Revenue		$ 84,370	$ 378,200	$ 462,570
Actual Revenue		77,531	378,200	455,731
Collections Over (Under) Estimate		$ (6,839)	$ 0	$ (6,839)
Fiscal Year 1985-86				
SPECIAL REVENUE FUND				
Estimated Revenue	$ 1,291,511[1]	$ 50,895	$ 481,250	$ 1,823,656
Actual Revenue	0	33,900	383,350	417,250
Collections Over (Under) Estimate	$(1,291,511)	$(16,995)	$ (97,900)	$(1,406,406)

[1] For detail see footnote 5.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 16 through 18.

MONTANA ARTS COUNCIL
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1987

	Promotion of the Arts	Grants	Special Projects	Total
PERSONAL SERVICES				
Salaries	$ 38,856		$ 38,637	$ 77,493
Employee Benefits	7,028		8,378	15,406
Total	45,884		47,015	92,899
OPERATING EXPENSES				
Contracted Services	46,103		182,383	228,486
Supplies & Materials	5,540	$ 69	19,078	24,687
Communications	5,791		11,904	17,695
Travel	11,067	8	16,392	27,467
Rent	6,082		9,481	15,563
Repair & Maintenance	516		567	1,083
Other Expenses	1,879		1,459	3,338
Total	76,978	77	241,264	318,319
EQUIPMENT AND INTANGIBLE ASSETS				
Equipment	264		132	396
Total	264		132	396
GRANTS				
From State Sources		666,076		666,076
From Federal Sources		162,725		162,725
Total		828,801		828,801
TOTAL PROGRAM EXPENDITURES	$123,126	$828,878	$288,411	$1,240,415
GENERAL FUND				
Budgeted	$ 52,167	$ 20,000	$ 36,784	$ 108,951
Actual	51,707	20,000	36,217	107,924
Unspent Budget Authority	$ 460	$ 0	$ 567	$ 1,027
SPECIAL REVENUE FUND				
Budgeted	$ 71,419	$860,812	$291,490	$1,223,721
Actual	71,419	808,878	252,194	1,132,491
Unspent Budget Authority	$ 0	$ 51,934	$ 39,296	$ 91,230

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 16 through 18.

MONTANA ARTS COUNCIL
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1986

	Promotion of the Arts	Grants	Special Projects	Total
PERSONAL SERVICES				
Salaries	$ 51,909		$ 33,948	$ 85,857
Employee Benefits	9,158		7,454	16,612
Total	61,067		41,402	102,469
OPERATING EXPENSES				
Contracted Services	38,089		155,184	193,273
Supplies & Materials	7,842		25,524	33,366
Communications	7,430		11,745	19,175
Travel	12,197		15,285	27,482
Rent	5,834		8,598	14,432
Repair & Maintenance	961		789	1,750
Other Expenses	1,119		2,198	3,317
Total	73,472		219,323	292,795
EQUIPMENT AND INTANGIBLE ASSETS				
Equipment	300		1,246	1,546
Total	300		1,246	1,546
GRANTS				
From State Sources		$ 486,280		486,280
From Federal Sources		183,883		183,883
Total		670,163		670,163
TOTAL PROGRAM EXPENDITURES	$134,839	$ 670,163	$261,971	$1,066,973
GENERAL FUND				
Budgeted	$ 60,399	$ 20,000	$ 38,308	$ 118,707
Actual	60,399	20,000	38,308	118,707
Unspent Budget Authority	$ 0	$ 0	$ 0	$ 0
SPECIAL REVENUE FUND				
Budgeted	$ 74,440	$1,438,468	$273,662	$1,786,570
Actual	74,440	650,163	223,663	948,266
Unspent Budget Authority	$ 0	$ 788,305	$ 49,999	$ 838,304

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 16 through 18.

MONTANA ARTS COUNCIL

NOTES TO FINANCIAL SCHEDULES

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1987

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF ACCOUNTING

The state of Montana uses the modified accrual basis of accounting which is described in the Montana Operations Manual. Under the modified accrual basis of accounting, a valid obligation exists when the related liability is incurred except for the following items which are also considered valid obligations under state accounting policy.

- If the appropriation provided funds to complete a given project, the entire amount of a contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.
- The anticipated cost of equipment is expensed in the fiscal year in which budgeted.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

Revenues under the modified accrual basis of accounting are recognized when measurable and available. "Available" means the revenue will be received soon enough to pay liabilities of the current period.

B. BASIS OF PRESENTATION

The financial schedules were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to state law. The following funds are used by the council:

General - accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Legislative appropriations are required to spend from this fund. This activity includes Cultural and Aesthetic grants (coal tax money), Basic State Grants, Artists in the Schools, Folklife, and Percent for Art.

2. ANNUAL AND SICK LEAVE

Employees at the council accumulate both annual and sick leave. Employees are paid for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in the financial schedules of the Montana Arts Council. Expenditures for termination pay currently are absorbed in the annual operational costs of the council. At June 30, 1987, the council had a liability of $17,503 for annual leave and $8,113 for sick leave.

3. PENSION PLAN

State employees of the council are covered by the Montana Public Employees' Retirement System (PERS). The council's contribution to this plan was $5,234 in fiscal year 1985-86 and $4,932 in fiscal year 1986-87.

4. GENERAL FUND BALANCE

The General Fund is a single account with one statewide fund balance. Agencies have the authority to pay obligations from the statewide General Fund as long as they stay within their appropriation limits. Thus, on an agency schedule, the beginning and ending fund balance will always be zero for the General Fund.

5. INVESTMENT EARNINGS

A portion of the council's funding is from investment earnings on the coal tax moneys. The Schedule of Budgeted Revenue - Estimate and Actual for fiscal year 1985-86 indicates there are estimated but no actual revenues recorded for these investment earnings. This is because the investment earnings are recorded on the Department of Revenue's accounts and are periodically distributed to the council. As noted in footnote 7, the Department of Revenue distributed $840,931 of the earnings to the council. This represents two years worth of earnings. However, not all cash was transferred by fiscal year-end 1986-87. This resulted in a negative fund balance. Prior to

fiscal year 1985-86, the council shared a coal tax account with Fish, Wildlife and Parks and the revenue was recorded at the council, rather than at the Department of Revenue.

6. PROGRAM CHANGES

Prior to fiscal year 1985-86, the council recorded all accounting activity in one program. For fiscal years 1985-86 and 1986-87 the council's program was divided into three subprograms entitled Promotion of the Arts, Grants and Special Projects.

7. CASH TRANSFER IN

The cash transfer in shown in fiscal year-end 1985-86 represents coal tax investment earnings transferred from Fish, Wildlife and Parks. The cash transfer in shown in fiscal year 1986-87 represents the coal tax investment earnings transferred from the Department of Revenue to the council for the Cultural and Aesthetic Program funding.

AGENCY RESPONSE

MONTANA ARTS COUNCIL

TED SCHWINDEN, GOVERNOR

STATE OF MONTANA

(406) 444-6430

35 SOUTH LAST CHANCE GULCH

HELENA, MONTANA 59620

RECEIVED
FEB 29 1988
MONTANA LEGISLATIVE AUDITOR

Date: February 29, 1988

To: Scott Seacat
Legislative Auditor

From: David Nelson
Executive Director

RE: Review of audit recommendations and agency response

We would like to note that half of the recommendations deal with compliance with state and federal law rather than accounting issues. We do not have the budget for a staff lawyer, but have recently contracted with the Agency Legal Services Division for legal support. Hopefully that contract will assist us in complying with statute, of which we are unaware.

RECOMMENDATION #1
The Council:

A. Comply with state law and not contract with former employees within 6 months of termination, and

Agency Response: We concur and have complied and will continue to comply. We were aware of the state law which prohibits contracting former state employees, within 6 months following termination of employment. We were not aware that the law also prohibits being employed with an employer who contracts with the state. In this instance, neither the employee's duties nor her pay for said duties changed.

B. Obtain a waiver from the Federal Grantor agency or make cost adjustments of $3,850 to the National Endowment for the Arts.

Agency Response: We concur and will comply. We have already been in telephone communication with the National Endowment for the Arts about this matter. They will review the recommendation upon their receipt of the audit and, when they are satisfied that we have complied with the recommendation, the matter will be resolved.

RECOMMENDATION #2
The Council:

A. Record expenditures in the proper fiscal year.

B. Monitor its budget to avoid overspending appropriations.

Legislative Auditor

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Agency Response: This recommendation refers back to a prior audit recommendation. Our response remains as it was at that time as follows:

> We do not concur. The transactions noted were primarily involved with the agency's relocation from Missoula to Helena and were legitimate. The timing was a difficult issue and had to be planned to fit in the agency's on-going workload. It was also a difficult transition for staff and the agency felt itself to be responsible to make the transition as smooth and humane as possible for everyone involved. Not terminating people by fiscal year end of 1984 was one of those concessions that the agency believed was reasonable to make. In addition, reversing the accruals after they have been paid and absorbing the cost out of current appropriations (the amounts in question are 15.4% of our current general fund administrative appropriation) would have a devastating effect on the agency.

In addition we requested and received authorization from the Accounting Division to carry this accrual forward at fiscal year end 1984 and 1985. There was no mention by them at that time that this was an inappropriate action.

RECOMMENDATION #3
The Council pay classified employees in accordance with state law.

Agency Response: We concur and have complied and will continue to comply. We were not aware of the state law cited in this recommendation. The classification increase authorized by the Director was one grade higher than the employee's existing grade. When the position was re-classified by the D of A, the increase was four grades higher than the employee's existing grade. We did not overpay this employee.

RECOMMENDATION #4
The Council:

A. make deposits in accordance with state law, and

B. establish procedures to improve internal controls over cash collections.

Agency response: We concur and have complied and will continue to comply. Since the audit, we are making deposits in accordance with state law and following our established procedures to improve internal controls over cash collections.

RECOMMENDATION #5
The Council negotiate an agreement with the federal government to recover indirect costs incurred in administering federal grants as required by state law.
Legislative Auditor

Agency response: We concur and are in the process of negotiating a lump sum indirect cost amount to cover the federal proportionate share of the SWCAP, which is about 32% of the total amount charged. This action will be finalized within three months.

RECOMMENDATION #6
The Council comply with state policy regarding expenditure recognition and accrue only when valid obligations exist.

Agency response: We concur and will comply at 1988 fiscal year end.

RECOMMENDATION #7
The Council comply with state policy by adequately supporting all SBAS documents.

Agency response: We concur and will comply. We reviewed the SBAS documents involved with one of the staff auditors and have a clear understanding of what is required for "adequate support".

RECOMMENDATION #8
The Council establish procedures to restrict the use of federal cash to the applicable federal program.

Agency response: We concur and have complied and will comply. We had no idea this was a problem. This recommendation involves the Percent for Art projects, during the start-up biennium for these projects. The Office of Budget and Program Planning was unsure how to handle the appropriation of these funds. It took months to get this straightened out and in the meantime the projects had begun and we charged the expenditures to federal funds. In the future we will utilize other funds for these kinds of items should they arise or request a general fund loan.

RECOMMENDATION #9
The Council develop a system to ensure subgrantees do not spend federal funds for political activity.

Agency response: We concur and will comply. We have revised our contract with sub-grantees to incorporate this restriction. We will include this information in our final sub-grantee self-evaluation as well.